**STATEMENT OF**
**THE HONORABLE JAMES L. OBERSTAR**
**COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**
**JOINT HEARING ON "FINANCING INFRASTRUCTURE INVESTMENTS"**
**MAY 8, 2008**

I want to thank Chairman Spratt for agreeing to hold this hearing as a joint hearing of both the Committee on the Budget and the Committee on Transportation and Infrastructure. A joint hearing is particularly appropriate in this instance. The expertise of both of our Committees will be required as we examine the issue of inadequate investment in our nation's infrastructure. I look forward to continuing to work with Chairman Spratt as we move forward to address this issue.

There is a growing awareness that, at the current level of investment, we are falling further and further behind in meeting our physical infrastructure needs.

Here, in one of the richest nations on earth, our infrastructure is literally crumbling around us -- collapsing, in some cases. In the aftermath of the tragic collapse of the Minneapolis bridge in August of last year, the sense of urgency has grown. Several bills have been introduced to create "infrastructure bank"-type entities to increase investment in infrastructure. We will discuss such proposals here today.

In addition, we will examine the role the budget process itself plays in the problem of inadequate infrastructure investment.

The Committee on Transportation and Infrastructure has long regarded the investments made in our physical infrastructure as necessary to our Nation's long-term economic vitality.

Yet, under the current budget structure and process, no distinction is made between a dollar spent for investing in our Nation's physical infrastructure and a dollar spent to cover day-to-day operating expenses. For budget purposes they are treated the same, but clearly they are not the same. They have very different impacts on our economy. Capital investments enhance our productivity, efficiency, and standard of living. Consumption and operations meet day-to-day needs but leave no discernible long-term legacy.

Many argue that our current method of accounting biases spending decisions against physical infrastructure by requiring infrastructure to be paid for all at once rather than over its useful life. Thus, infrastructure investments are not judged on their long-term economic return, but rather on a distorted view of their "up-front" impact on the budget.

I have long believed that the current Federal budget structure and process tend to result in a less than optimal level of investment in infrastructure and other programs that promote long-term economic growth and increased productivity.

In the 1980's, as Chairman of the Subcommittee on Economic Development, I chaired a series of hearings on capital budgeting. These hearings eventually led to the presentation of additional information on capital investment spending as part of the annual President's Budget, known as "Special Analysis D".

While such additional information is helpful, by itself it is not enough to counteract what I believe are the fundamental biases of the current budget process.

Under the current budget process, even capital investments that would result in future cost savings to the Federal Government itself are difficult to fund. This is because the spikes in budget authority needed to make up-front capital investments are difficult to accommodate, and the one-year time horizon of the federal budget process does not recognize future cost savings that result from such investments. Under the current process, the overriding concern is to minimize spending in the budget year, regardless of whether or not increased investments made in the budget year would result in cost savings or cost avoidance in future years.

This can -- and has -- led to inefficient Federal spending. One example is the use of short-term operating leases to acquire Federal office space for which the Federal government has a long-term need. By using these costly leasing practices, we are wasting millions of dollars over the long-term, simply to reduce our costs in the short-term.

Another example can be found in the Transportation Security Administration's struggle to acquire automated airport baggage screening systems that would allow it to reduce the number of screeners it needs to screen baggage. Despite the fact that some of these systems would pay for themselves within a few years through screener personnel cost savings, the TSA has found it difficult to accelerate its investment in the systems, due to budget constraints.

These examples involve Federally-owned capital assets. A somewhat different problem exists for non-Federally-owned assets. When the Federal government invests in public infrastructure, such as highways or bridges, the Federal government itself does not reap the benefits of that investment. Rather, the benefits accrue to the private sector, and they accrue over many years -- the useful life of the asset. Under the current budget process, there is no recognition of the long-term benefits that are generated by such investments. Rather, the Federal budget treats all expenditures the same, regardless of whether it is spending for long-term investment or spending for current consumption.

For these reasons, I believe that changes to the budget process itself must be part of our discussion here today. What changes in the budget process could be made to ensure that spending for current consumption does not "crowd out" spending for long-term investment? Without such changes, I fear that the one-year time horizon of our budget process will result in short-sighted budget decisions that put our nation's future economic well-being at risk.